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DEFENSE INDUSTRY IN ROMANIA

OVERVIEW/MARKET BACKGROUND

Romania has clearly expressed its pro-NATO position and is making every effort to qualify for NATO membership in a not too distant future. In the meantime, Romanian armed forces may participate in peace-keeping international operations (e.g. Albania, Angola, SFOR, and KFOR) and in Partnership for Peace (PFP) exercises meant to enhance their interoperability with NATO forces. Romania and the United States have established a Strategic Partnership.

Since 1990, Romania has been working on plans for the downsizing and modernization of its armed forces and defense industry, trying to better assess what it needs and what it can afford. The country's armed forces have been gradually reduced. Plans for 2005 provide for a more compact, effective, and flexible structure that is compatible with NATO standards and has a maximum strength of 112,000 military personnel and 28,000 civilians. Defense industry production facilities have been transferred from the Ministry of National Defense (MND) to the Ministry of Industry and Resources. Currently there are about 35 large factories (mostly state-owned) which work for defense. The reform of the industry, which emphasizes restructuring and privatization, is still in its initial stages.

Because of great economic difficulties at a time of transition to a market economy, Romania has kept annual budget allocations for its defense sector at a very low level. The budget debate for 2001 is ongoing and will probably result in a budget between \$1,050 million and \$1,200 million. It is estimated that, in recent years, Romania's annual defense budgets covered only about 25 percent of needed procurement.

DECISION MAKING/PROCUREMENT PROCESS

The most important officials involved in decision making on military procurement are the Minister of National Defense, the Chief of the General Staff, and the Head of MND's Procurement Department.

Military procurement is conducted via tenders open to both domestic and foreign suppliers. Although funds are limited, the MND will buy only state-of-the-art equipment. (Used, but modern, Western equipment is acceptable if donated. Examples include the German transfer of the Gepard antiaircraft system, as well as U.S. Excess Defense Article transfer of four C-130B aircraft to Romania). Transactions favored by the defense industry are those involving technology transfer and co-production (also for third markets). In the course of contract negotiation, inviting Romanian experts and MND officials to see production facilities and demonstrations of equipment is a normal procedure.

Romtehnica, an import-export company under the MND, allows MND to contract directly with foreign companies. Romtehnica experts play an important part in contract negotiation.

MAJOR PROGRAMS

Army

Building a modern communication system. Investment in this area is an absolute priority for the Romanian army, the main focus being on ensuring interoperability with PFP and NATO forces in multi-national operations. Financing for this program, of which about 15 percent has already been implemented, is available from State budget allocations as well as off-budget income generated by the MND by selling frequency spectrum to commercial telecom operators and other similar programs.

The Romanian Army Transmission System (STAR) has two components: the Permanent Transmission Network (RTP), which is the fixed strategic communication system, and the Campaign Transmission Network (RTC), which is mobile. RTP modernization is being undertaken in cooperation with the Italian firm Marconi, and will consist in building about 300 nodes. Equipment for about 60 nodes has already been purchased. The development of the RTC started with purchases made from the British firm Racal. Subsequently, a more complex procurement plan for the network was developed, the MND opting for Harris equipment as being better suited for the program. Harris continues to expand its market in Romania.

Implementation of a pilot C4I system (value \$50 million). A tender is expected to be launched by MND some time in 2001. Expected to compete for the contract are Marconi Spa (Italy), Thomson (France), Siemens (Germany), Ericsson (Sweden), as well as such U.S. companies as Lockheed Martin, Raytheon, and BAE Systems.

Tank modernization. The Romanian tank manufacturer intends to upgrade about 150 old tanks (built on technology dating back to 1985). The upgraded "Bizonul" TR-85 M1 medium tank will be produced in cooperation with the French firm Matra. At the end of 1999, the first batch of new tanks was delivered to operational units for testing.

Production of upgraded armored vehicles. In late 1998, a new generation of amphibious vehicles, Zimbru, was launched by the local industry. Cooperation in production with potential partners interested in importing this type of vehicle is being discussed.

Modernization of antiaircraft artillery. Romania produces 30 mm caliber cannons which use ammunition made in cooperation with Israel. Germany provided assistance to the industry by donating 43 used Gepard antiaircraft cannons, of which 36 are being upgraded to the Gepard 2x35 mm air defense system, while the balance provide spare parts.

Air Force

Global Air Traffic Management (GATM). As Romania prepares for NATO interoperability, it must obtain mandatory capabilities to be compliant with new GATM mandates. RoAF has designed a communications and navigational upgrade program. Romania is expected to look for contract assistance in this effort, as deadline for GATM compliance is 2002.

Air space control system modernization. Romania inaugurated its Air Sovereignty Operations Center (ASOC) in Bucharest in February 1999. This center coordinates the activity of five dual-use Lockheed Martin S-FPS 117 radar systems (total cost:\$82 million) located at Giarmata-Timisoara, Constanta, Suceava, Craiova, and Varful Muntelui in the Western Carpathians. Romania's ASOC system is the most modern in Central and South-Eastern Europe and will allow civil and military air traffic control not only in the Romanian air space, but also beyond it, each radar being active on a radius of 460 km. ASOC was created with a \$6.45 million assistance granted by the United States from FY-96 Foreign Military Financing under the Warsaw Initiative Funding.

Upgrading of MIG-21 aircraft. According to MND, this is the most expensive military program started by Romania in the last ten years. The "Lancer" fighter, the Romanian upgraded version of MIG-21, is being produced at Aerostar-Bacau aircraft factory in cooperation with the Israeli firm Elbit Systems.

Attack helicopters. Rather than modernizing its old fleet of 1,375 tanks built on 1960's technology, the MND is trying to attract foreign investment for the manufacturing of modern antitank helicopters. Eurocopter has recently announced their intention to invest several tens of million euros in the IAR Brasov aircraft factory to initiate production of twin-engine EC-135 helicopters.

Upgrading of the IAR-330 helicopter (avionics, weapons system, NVG capable). Under this program, which is developed in cooperation with the Israeli firm Elbit, 24 IAR-330 helicopters will be upgraded with the SOCAT system.

Navy

Modernization of the communications system of the "Marasesti"destroyer. A German system integrator has been selected by MND. Harris won the tender on the RF communications system. The program is underway and it is expected to be completed in the second quarter of 2001.

LOCAL INDUSTRY

Before 1990, Romania pursued a policy of self-sufficiency in armaments, producing approximately 70 percent of the arms used by its armed forces, as well as supplying arms to other countries. This resulted in a robust and diverse defense industrial base, with arms factories located throughout the country. Currently, however, this industry produces

material not suited for equipping a 21st-century military. The industry continues to be a drain on the economy, and in order for it to survive in a free market it must be restructured, i.e. downsized, and modernized.

Defense industry production facilities are under the Ministry of Industry and Resources. About 35 factories, which are the most important in the sector, make up the "Romarm" National Company (Note: A list of "Romarm's manufacturing facilities and major products is provided under Key Contacts below). A second component of the industry is formed of smaller companies that work for both the military and the civilian sectors.

COMPETITION

Romanian military procurement, although modest, generates stiff competition among the main players on the country's defense market. Western European companies, which know the country well and are familiar with its business climate, are particularly aggressive. Moreover, they get considerable support from their governments. Such countries as France, Germany, and Italy have a good foothold on the market. So does Israel, whose trade relations with Romania have always been active.

In spite of strong competition from these countries, U.S. suppliers of military equipment and technology, with their worldwide reputation for excellence, stand good chance on the Romanian defense market. With adequate support from the U.S. Government, and availing themselves of the good business climate generated by the strategic partnership between the United States and Romania, U.S. companies could secure important contracts related to the above-listed procurement programs. Best prospects for U.S. exports include communications equipment and software; radars; attack helicopters; and avionics.

MARKET ACCESS

Military or civilian/military international fairs such as IDEX (Abu Dhabi), Eurosatory (Paris), the Paris Air Show, or Farnborough, which are regularly attended by Romanian military, offer good opportunities for first contacts with high-level MND officials and representatives of the Romanian defense industry.

An international exhibition for military equipment, Expomil, was first organized in Bucharest by the MND in cooperation with Romexpo S.A. in October 1999. A second Expomil is expected to be organized in October 2001.

KEY CONTACTS

U.S. Government

Roda Tinis, Industry Specialist
Commercial Service

American Embassy Bucharest
Str. Tudor Arghezi 7-9
Bucharest, Romania
Tel. (40-1) 210-4042, Fax: (40-1) 210-0690

Cdr. William Charles Dempsey
Office of Defense Cooperation – Romania
Str. Tudor Arghezi 7-9
Bucharest, Romania
Tel. (40-1) 210-4042; Fax: (40-1) 210-0395

U.S. Mail:
U.S. Embassy (Bucharest – 5260)
c/o Dept. of State
Washington, DC 20521 – 5260

Romanian Government/Defense Procurement

MINISTRY OF NATIONAL DEFENSE

Str. Izvor 3-5
Bucharest, Romania
Tel. (40-1) 410-5472
Fax: (40-1) 312-7460
Minister: Ioan Mircea Pascu
Chief of the General Staff: Army General Mihail Popescu
State Secretary, Chief of Procurement Department: (Vacancy)

ROMTEHNICA

Drumul Taberei 9-11
Bucharest, Romania
Tel. (40-1) 410-3405
Fax: (40-1) 410-1467, 413-0317
Director General: Florian Ionica

Comment: An import-export company under the MND. It allows the MND to contract directly with foreign companies.

Romanian Defense Industry

"ROMARM" NATIONAL COMPANY

Bd. Timisoara 5B
Bucharest, Romania
Tel. (40-1) 410-6539, 413-5040
Fax: (40-1) 413-0625
Director General: Alexandru Fratean

Comment: A holding under the Ministry of Industry and Resources. Production includes: armored and non-armored vehicles (Bucharest Mechanical Plant, Ploiesti Electro-mechanical Plant); artillery (Resita Mechanical Plant); small weapons, ammunition, pyrotechnic products (Sadu-Gorj Mechanical Plant, Victoria-Brasov Mechanical Plant, Dragomiresti-Dambovita Plant); vessels for the navy (Mangalia Shipyard); arms and ammunition (Cugir - Alba, Tohan Zarnesti - Brasov, Carfil - Brasov), Metrom - Brasov, Moreni - Dambovita, Filiasi - Dolj, Orastie - Hunedoara, Dragasani - Olt, Mija - Prahova, Valenii de Munte - Prahova, and Babeni - Valcea).

IAR S.A.

Str. Aeroportului 1
Brasov, Romania
Tel. (40-68) 150014
Fax: (40-68) 151304
Director General: Neculai Banea

Comment: In cooperation with Elbit Systems (Israel), manufactures the IAR – 330L Puma helicopter equipped with SOCAT system.

AEROSTAR S.A.

Str. Condorilor 9
Bacau, Romania
Tel. (40-34) 172006
Fax: (40-34) 172023
Director General: Grigore Filip

Comment: In cooperation with Elbit Systems (Israel), manufactures the “LANCER” fighter (upgraded version of MIG-21). Has ISO-9000 certificate.

AVIOANE S.A.

Str. Aeroportului 1
Craiova, Romania
Tel. (40-51) 124610, 124225
Fax: (40-51) 124382
Director General: Tudor Bistreanu

Comment: Manufactures the "SOIM" advanced trainer/ground attack aircraft IAR-99.

TUBOMECANICA S.A.

Bd. Iuliu Maniu 244
Bucharest, Romania
Tel. (40-1) 220-0125
Fax: (40-1) 312-9165
Director General: Serban Ciorapciu, Tel. 312-9395

Comment: Manufactures turboshaft and turbojet aircraft engines (Viper and Spey, under Rolls-Royce license); helicopter gearboxes and rotor heads (Aerospatale license)

AEROFINA S.A.

Sos. Fabrica de Glucoza 5

Bucharest, Romania

Tel. (40-1) 242-0265; Fax: (40-1) 242-0912; Tel/Fax: 242-0444

Director: Ioan Sanduleanu

Comment: Manufactures airborne equipment (basic avionics).